



Homeland
Security

November 22, 2004

MEMORANDUM FOR: Karen Armes
Acting Regional Director
FEMA Region IX

Robert J. Lastrico

FROM: Robert J. Lastrico
Field Office Director
Office of Audits

SUBJECT: *City of Los Angeles - General Application*
Los Angeles, California
Public Assistance Identification Number 037-44000
FEMA Disaster Number 1008-DR-CA
Audit Report Number DS-01-05

The Office of Inspector General (OIG) audited public assistance funds awarded to the City of Los Angeles, Los Angeles, California (City). The objective of the audit was to determine whether the City expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

As a result of the Northridge earthquake in January 1994, the City received a single grant award of \$6.7 million from the California Office of Emergency Services (OES), a FEMA grantee, for emergency protective measures and permanent repairs to the various facilities of eight City organizations (General Application).¹ The award provided 100 percent federal funding for emergency work until January 25, 1994, and 90 percent funding thereafter for 12 large projects and 30 small projects.² The audit covered the period January 17, 1994, to June 12, 2002 and included the review of eight large projects with a total award of \$5.6 million (see Exhibit).

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended and according to *Government Auditing Standards* issued by the Comptroller General of the United

¹ Those organizations include Animal Regulation, the City Attorney, the City Clerk, the Convention Center, Cultural Affairs, Information Technology, Personnel, and Transportation.

² Federal regulations in effect at the time of the disaster set the large project threshold at \$42,400.

States. The audit included review of FEMA, OES, and City records, a judgmental sample of project expenditures, and other auditing procedures considered necessary under the circumstances.

RESULTS OF AUDIT

The City earned \$83,655 of interest income on a \$1.3 million FEMA advance and the interest was not remitted to FEMA as required by federal regulations. In addition, the OIG questioned \$424,293 in costs claimed by the City under this general application grant (FEMA's share is \$381,864). Specifically, the City claimed \$319,153 in costs covered under FEMA's statutory administrative allowance, \$63,577 in unsupported costs, and \$41,563 in excessive project management costs.

Finding A – Interest Earned on Federal Advances

In response to the devastation caused by the Northridge Earthquake, FEMA advanced OES \$201 million in public assistance funds. Of the \$201 million, OES advanced \$75 million to the City and the City re-distributed the funds to various City departments that had applied for disaster assistance separately. Of the \$75 million, the City's General Administrative Office received a \$3.3 million advance to cover disaster repair costs for the eight City organizations, including \$1.3 million for the Los Angeles Convention Center.

Unaware that the City had provided advance funding to the General Administrative Office, FEMA provided an additional advance of \$1.3 million to that office on July 9, 1996, to cover disaster repair costs incurred by the Convention Center.³ The City's accounting records showed the funds were deposited into an interest bearing account on July 12, 1996 and were returned to FEMA on July 18, 1997. Further, those records showed that the City earned \$83,655 in interest income that had not been forwarded to FEMA. City officials agreed that interest was earned on the advance but had not been returned because FEMA had not provided instructions on how to remit the interest to FEMA.

The Comptroller General of the United States has consistently held that, except as otherwise provided by law, interest earned by a grantee on funds advanced by the United States under an assistance agreement pending their application to grant purposes belongs to the United States and that all such interest is required to be accounted for as funds of the United States.⁴ In addition, 44 CFR § 13.21(h)(2)(i) indicates that grantees and subgrantees are required to remit to FEMA the interest earned on advances at least quarterly. Consequently, FEMA should recover the \$83,655 in interest earned by the City on the advanced FEMA funds provided for general applications.

Finding B - Costs Covered under FEMA's Statutory Administrative Allowance

The City claimed \$319,153 in direct project costs for costs covered by FEMA's statutory administrative allowance. Details of administrative allowance costs claimed as direct project costs are provided below:

³ Disaster Survey Report 06797.

⁴ GAO Principles of Federal Appropriations Law, Vol. II, Chapter 10, Section E3., Interest on Grant Advances (1992).

- For project 02389, the City claimed \$256,290 for computer services and related supplies. Project documents supporting the claimed expenses showed that the costs pertained to the production of damage assessment reports for use by various City departments. The reports contained general damage information including the names and locations of buildings inspected, the percentage of damage identified, and the estimated costs to repair the damage. Since FEMA's statutory administrative allowance already covers the cost of an applicant's efforts to identify and assess the level of disaster damage, the \$256,290 cannot be claimed as a direct project cost. City officials agreed the reports included damage assessment information but stated that the costs should be allowed since they were disaster related.
- For project 91972, the City claimed \$39,387 in salaries paid to employees performing general office work and data entry. City officials agreed the charges were related to the performance of general administrative tasks. Also under this project, the City claimed \$16,556 in grant administration costs related to the repair and restoration of the Los Angeles Watts Tower, a historical monument. Grant administrative charges included consultant efforts to request and administer grant funds and meetings with FEMA and OES officials. City officials generally agreed that the costs pertained to administering the grant and not to direct disaster repairs.
- For project 06797, the City claimed \$6,920 for a consultant who performed a damage assessment of the Los Angeles Convention Center and met with FEMA officials. City officials agreed the charges were covered by FEMA's statutory administrative allowance.

According to 44 CFR § 206.228(a)(2)(ii), the City is reimbursed for the direct and indirect costs associated with the requesting, obtaining, and administering public assistance based on a statutory administrative allowance. Since the City was reimbursed for administrative costs based on the allowance, the same costs are not allowed as direct project costs. Therefore, the OIG questioned \$319,153 in direct project costs claimed by the City.

Finding C – Unsupported Project Costs

The City claimed \$63,577 in costs not supported with documentation showing the charges were eligible or disaster related. According to 44 CFR § 13.20(b), the City is required to maintain accounting records that identify how FEMA funds are used. The audit determined that:

- For project 68536, the City could not provide supporting documentation that \$62,220 claimed for the cost of materials was a disaster related expenditure. The project provided funding for the costs of emergency protective measures to repair water mains, bridges, and traffic signals and signs. Project records indicated the material used for repairing traffic signals was obtained from a Los Angeles City warehouse at a cost of \$62,220. To support this expenditure, the City provided the OIG with a computer generated report (Project Retrieval Report) that listed the material and material cost. The City, however, was unable to provide supporting documentation such as warehouse requisition slips or similar records, to support the validity of the data in the report.

- For project 02389, the City claimed total contract labor costs of \$8,447. However, the accounting records only supported \$7,090 of the amount claimed. Therefore, the difference of \$1,357 was unsupported and questioned by the OIG.

Since City officials were unable to provide documentation proving the costs identified above were for disaster related activities; the OIG questioned \$63,577 of the City's claim.

Finding D – Excessive Project Management Costs

The City claimed \$41,563 in excessive project management costs for project 06797. Project records showed that FEMA approved the project when it was 97 percent complete and capped the project management costs at \$104,567⁵, because the associated costs reported by the City were excessive at the time of FEMA approval. Accounting records supporting the City's claim included \$41,563 in force account labor charges for project management in excess of the cap established by FEMA. According to 44 CFR § 13.20(b)(5), subgrantees are required to follow Office of Management and Budget (OMB) cost principles, agency program regulations, and the terms of grant and subgrant agreements in determining the reasonable costs. OMB Circular A-87, Attachment A, Section C.2 provides that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person. Since it was not reasonable for the City to claim an amount beyond the FEMA established cap; the OIG questioned \$41,563 as excessive project management costs. City officials agreed that since FEMA capped the costs, the \$41,563 should not have been included in the final claim for the project.

RECOMMENDATIONS

The OIG recommends that the Regional Director, FEMA Region IX, in coordination with OES,

1. Recover \$83,655 of interest earned by the City on the FEMA advance and
2. Disallow \$424,293 of the City's claim for costs covered under FEMA's statutory administrative allowance, unsupported project costs, and excessive project management costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the results of this audit with General Application, and OES officials on September 16, 2004. Those officials agreed with findings A, C, and D; and partially agreed with finding B. The OIG also notified FEMA Region IX officials of the audit results on September 17, 2004.

Please advise this office by January 21, 2005, of the actions taken to implement the recommendation in this report. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this assignment were Ravi Anand, Gale Dwyer, and Tony Fajardo.

⁵ Based on project construction costs of \$1,818,550 times 5.75%

Schedule of Audited Projects
City of Los Angeles-General Application
Los Angeles, California
Public Assistance Identification Number 037-44000
FEMA Disaster Number 1008-DR-CA

Project Number	Amount Awarded	Costs Questioned	Finding Reference
02389	\$ 318,023	\$257,647	B, C
91972	1,950,751	55,943	B
06797	2,033,131	48,483	B, D
73958	320,286	0	
68536	496,888	62,220	B
12307	263,150	0	
07088	146,247	0	
07089	<u>46,750</u>	<u>0</u>	
Total	<u>\$5,575,226</u>	<u>\$424,293</u>	

Finding Reference Legend:

B – Costs Covered under FEMA’s Statutory Allowance

C – Unsupported Project Costs

D – Excessive Project Management Costs